

The Treasury

Paid Parental Leave Information Release

June 2013

Release Document

www.treasury.govt.nz/publications/informationreleases/paidparentalleave

Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in these documents has been withheld under one or more of the following sections of the Official Information Act, as applicable

- section 9(2)(a) – to protect the privacy of natural persons, including deceased people, and
- section 9(2)(g)(i) – to maintain the effective conduct of public affairs through the free and frank expressions of opinion.

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Treasury Report: Paid Parental Leave: A Policy Perspective

Date:	20 September 2012	Report No:	T2012/1780
--------------	-------------------	-------------------	------------

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	note that we conclude there would be minimal benefit from increasing the length of paid parental leave	None
	refer a copy of this report to the Minister of Labour for her information	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
[Withheld under s9(2)(g)(i)]			
Ben McBride	Team Leader, Labour Market and Welfare	04 917 6184 (wk)	[Withheld under s9(2)(a)]
			(mob)

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Enclosure: No

Treasury Report: Paid Parental Leave: A Policy Perspective

In light of the recent Member's Bill currently before Select Committee, and discussions on child poverty, this report outlines our analysis on paid parental leave.

We support the principle of having a paid parental leave scheme...

Paid parental leave primarily provides compensation to employed women who face an opportunity cost from taking time away from the workforce to have children.

Evidence also suggests there is benefit to having a paid parental leave scheme across a range of other outcomes, including labour market participation, health and development outcomes for women and children and equity.

...however, there is not a strong evidence-based argument to support extending the length of paid parental leave.

The evidence in support of paid parental leave is not based on a defined length, and the literature suggests there is no evidence of an 'optimum length' which would improve outcomes over time.

Studies suggest that the majority of people accessing paid parental leave in New Zealand take a period of unpaid leave, returning to work around six months, but return due to financial reasons. Many of the health and development benefits can be attributed to keeping children in the home environment for roughly six months, the marginal gains beyond this period are less certain.

We conclude that the marginal benefits of an extension to the length of payment, across all of the outcomes examined, is likely to be small.

In addition, only the group who currently access paid parental leave would be advantaged by any changes. In New Zealand, paid parental leave recipients are predominately middle to higher income earners; it is not a well targeted policy for reaching vulnerable families.

There may be merit in looking at the wider parameters of paid parental leave.

If Ministers do want to make changes to paid parental leave, there may be merit in examining its wider parameters which may be limiting flexibility and restricting access to certain groups.

For example, extending to families who give young children from care a Home for Life, as suggested by the White Paper for Vulnerable Children, or broadening the eligibility criteria to include non-standard workers.

However, if support for vulnerable families and children in poverty are key considerations, paid parental leave will unlikely be the most effective lever.

There are a number of other government interventions which could more effectively target vulnerable families. The total package of levers and alternative options would need to be considered before making any changes to any of the parameters of paid parental leave.

Recommended Action

We recommend that you:

- a **note** that we conclude there would be minimal benefit to extending the length of paid parental leave, and
- b **refer** a copy of this report to the Minister of Labour for her information

Referred/not referred

Ben McBride
Team Leader, Labour Market and Welfare

Hon Bill English
Minister of Finance

Treasury Report: Paid Parental Leave: A Policy Perspective

Purpose of Report

1. This report summarises Treasury's views on paid parental leave based on an objectives framework, drawing together evidence-based conclusions across a range of outcomes.
2. There are two key reasons why these conclusions are important. The Parental Leave and Employment (Six Months' Leave) Amendment Bill is currently at the Select Committee stage, with a final report due January 2013. Paid parental leave is also increasingly being raised as an issue in other poverty-related areas such as the Children's Commissioner's Experts Advisory Group report. Therefore, it could be picked up in wider Ministerial discussions such as the Ministerial Committee on Poverty. Conclusions formed in this report may be useful to feed through these different avenues, should you desire.
3. The Ministry of Business, Innovation and Employment and the Ministry of Women's Affairs have been consulted.

Background

4. The Government provides 14 weeks of paid parental leave at a maximum payment level of \$475.16 per week for employees before tax or \$135 a week for self-employed persons. Annex 1 provides further detail of New Zealand's parental leave settings.
5. We note that settings currently meet minimum ILO requirements for maternity leave for all employed women. While New Zealand has not ratified this convention, it is a guiding international standard which we would not recommend moving away from.

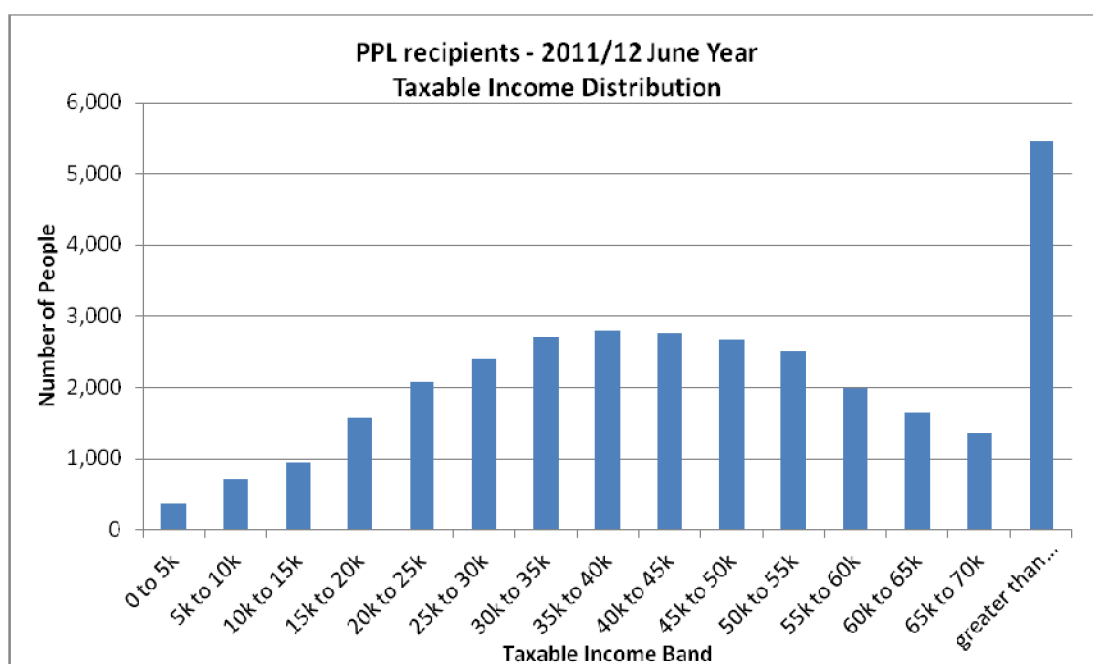
Objectives Framework

6. Paid parental leave is primarily a tool to transfer resources from general taxation to previously employed parents, who would have taken leave in the absence of a paid parental leave scheme. The policy shares the costs of childbirth for women in work between the government, employers and wider society. However, the potential benefits of paid parental leave extend wider than this in a policy setting, with a potential secondary impacts on a broader set of outcomes, we have examined four particular outcomes:
 - female labour market participation
 - health outcomes and child development
 - income adequacy, and
 - gender equity.
7. These outcomes take into account a wide variety of considerations. There will be trade-offs between objectives and also costs to both the government and firms. Policy conclusions will depend on the relative emphasis on each objective, and the strength of the evidence as to whether outcomes can be influenced by paid parental leave.

8. Paid parental leave is only one part of a package of support provided to parents and children, including unpaid leave, parental tax credits, working for families, free health care, childcare subsidies and wider work and income support through the welfare system. Changes to paid parental leave settings should therefore not be considered in isolation as there may be alternative levers that would more efficiently meet similar objectives.

Who Accesses Paid Parental Leave in New Zealand?

9. Any benefits of an extension to the current scheme will advantage the current access group. There are a number of parameters within the current scheme which restrict access. Parental leave eligibility is determined by existing labour market attachment; this incentivises participation in the workforce to become eligible, discussed below. However, the consequence of this setting is that women who are more likely to be eligible already have tendencies to work, are likely to be educated and have been shown to be in the middle to high income brackets¹.
10. Analysis of income tax return and PAYE data for the 2011/12 financial year shows that of the 32,000 paid parental leave recipients, 40% were earning over \$50,000 a year and 17% were earning over \$70,000. This picture has only changed slightly over the last three years, up from 36% and 14% respectively in the 2009/10 year.



11. Some of the more detailed eligibility requirements may also be limiting access. We expect that lower income and lower skilled women are not likely to access paid parental leave for various reasons such as not meeting the six months continuous employment criteria, being employed by two or more employers, non-standard work patterns such as casual work or contract work, or a lack of awareness of entitlements.
12. The Department of Labour (2007) found that most new mothers who were not in the labour market in the six months prior to giving birth were already at home looking after older children. Indicating that families with multiple children may be less likely to qualify.

¹ Morton et al (2010) Growing Up in New Zealand: A longitudinal study of New Zealand children and their families
Department of Labour 2007 Review. <http://www.dol.govt.nz/publication-view.asp?ID=225>

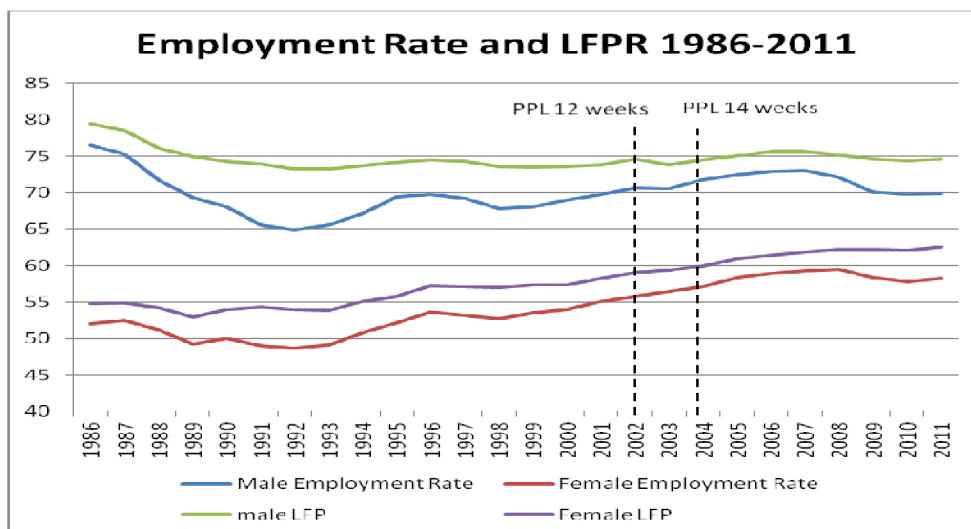
Objectives Discussion – Summary of Conclusions

13. **Female labour market participation:** Parental leave is likely to have a small positive impact on female employment; however there is no evidence of an optimum length of paid parental leave to incentivise labour market participation. We estimate that the marginal impacts of increasing the length are likely to be very small, particularly if unpaid leave is also available as unpaid leave secures job protection.
14. **Health and well-being:** Parental care in approximately the first six months of a child's life appears to have a positive impact on the health outcomes of mothers and children, and somewhat to a lesser degree on child development. There is some evidence of impacts beyond six months, although the literature is less conclusive. Studies show that the majority of women return to work around six months due to financial pressure (taking a period of unpaid leave). There may be marginal benefits to an extension to the length of payment, but it is our view that these are likely to be small.
15. **Income adequacy:** Paid parental leave provides some support women in employment who face an opportunity cost to having children. However, paid parental leave shouldn't be thought of as an income support lever for low socio-economic families. It is capped at a fairly low rate and is not well targeted to families most in need of income support. Therefore, extending the length is likely to not be the most efficient way to improve income adequacy outcomes.
16. **Equity:** Paid parental leave may have some influence on household or labour market equity outcomes. Payment is primarily set up to be received by women, further entrenching the mother's role in the household and the father's role in the labour market. Although payment can be transferred to fathers, but this does not usually occur within 14 weeks. An extension therefore may enhance equity outcomes if fathers are more likely to take a portion of paid parental leave available when it lasts longer.

Objectives Discussion – Labour Market Outcomes

17. In theory parental leave may increase female labour supply by increasing the incentives for parents to enter and remain in work to qualify for paid parental leave. There is no financial incentive to return to work post-birth, unless looking to qualify for the next period of leave, but the Department of Labour (2007) found that 70% of employers indicated paid parental leave helped them to retain experienced staff, and women who were ineligible for paid parental leave had significantly lower rates of return to work compared to women who took paid parental leave.
18. However, international empirical evidence of an increase in female labour supply is mixed and any positive effects are usually small. It is very difficult to determine between the impact of paid and unpaid leave, as unpaid leave provides for job protection rather than income compensation, and some employers will offer informal paid leave arrangements.
19. There may also be some small dis-employment effects at the margin as women are more costly to employ. Overall the change in the labour market at an aggregate level is likely to be relatively unobservable.
20. Statistics New Zealand data shows a trend of increasing participation and employment of women over the last decade². However, it is difficult to isolate a positive impact of the introduction of 12 weeks paid leave, or the extension to 14 weeks.

² Household labour force survey employment and participation data
T2012/1780 : Paid Parental Leave: A Policy Perspective



21. Isolating the impact of increasing the length of payment is difficult. Evidence across OECD countries suggests that marginal changes to leave duration are most significant when existing settings are short (i.e. less than 20 weeks). However, eventually the marginal benefit of further leave extensions will diminish³. As New Zealand's current settings are still relatively low, there may still be some small marginal benefit to an extension.
22. Overall, parental leave is likely to have a small positive impact on female participation and employment, and therefore potentially productivity and growth. However, there is no evidence of an optimum length of paid parental leave to lift female employment. In our view, the marginal impacts of increasing the length are likely to be small.

Objectives Discussion – Health and Child Development

23. Paid parental leave may make it financially possible for parents to keep children in the home environment for longer. This can lead to positive effects on child and mother's health by easing women's recovery from birth, isolating young infants from infection and facilitating breastfeeding of children⁴.
24. There is a case for some minimum period of paid leave during approximately the first six month period of the child's life for improved health outcomes. The Australian Productivity Commission reports on a body of evidence that suggests longer periods of parental leave are associated with better child health outcomes, however overall the evidence on the size of the impact is mixed⁵. This is likely because child well-being is more strongly predicted by a range of other socio-economic indicators and the household environment.
25. Studies also argue that the early years and bonding between parents are critical to child development (i.e. cognitive, social and emotional outcomes). Overall the evidence indicates that exclusive parental care for around six months may foster improved development outcomes. Although, the size of the effect is often small and even within this critical early period, if return to work part-time and care is of high quality, evidence would suggest it has little or no detrimental effects on development. The availability of high quality care for young children may be a constraint to this in New Zealand. The evidence is much less conclusive beyond six months, although there is some support in the literature that up to 12 months parental care should be the minimum for cognitive and behavioural development.

³ OECD (2011), *op. cit.*

⁴ Callister & Galtry (2006). Assessing the Optimal Length of Parental Leave for Child and Parental Well-Being How Can Research Inform Policy? *Journal of Family Issues*, Vol. 26 No. 2, March 2005 219-246

⁵ Productivity Commission Australia (2009). *op. cit.*

26. The Department of Labour (2007) found that the majority of mothers return to work when the baby is six months old due to financial pressures, but would like to return when the baby is 12 months old. An extension to six months paid leave may have small impacts on outcomes, if the behavioural response is to keep children in the home environment for longer, but as most women already take a period of leave around six months, this impact is likely to be marginal.
27. Overall, parental care in approximately the first six months of a child's life appears to have a positive impact on the health outcomes of mothers and children, and somewhat also on child development outcomes, and there may be some marginal benefit from an extension which allows children to be kept in the home environment for longer. However, the most vulnerable children are likely born into families where parents are not eligible for paid parental leave, and therefore the greatest gains to child health and development outcomes are not likely to occur due to paid parental leave.

Objectives Discussion – Income Adequacy

28. Paid parental leave provides a level of compensation for women in the workforce who have children, but it is not a strong tool to alleviate income inadequacy.
29. The maximum payment level is set relatively low, at less than minimum wage for a person working a 40 hour week, and eligibility is based on existing employment. As indicated earlier, the current access group is likely to be middle and high income women with stable employment. Disadvantaged women in non-standard working environments are more likely to miss out, for example seasonal or casual workers with more than one employment relationship.
30. Paid parental leave is therefore not a well targeted tool if we are concerned about income adequacy for the most vulnerable families. The biggest gains in reducing child poverty are more likely to be made through targeted support to low income families, and through employment.
31. If income adequacy was a key objective, then tax credits are in many ways an alternative to paid parental leave which more closely targets a sub-group of the population in need (although currently at a lower level). For women not in work, the Domestic Purposes Benefit provides support for sole parents and their children.
32. Overall the arguments for extending the length of paid parental leave from an income adequacy viewpoint are weak. The families who do not qualify are likely to be those people most in need of income support for themselves and their young children.

Objectives Discussion – Gender Equity

33. Paid parental leave may have a small impact on household and labour market equity outcomes. Paid parental leave is currently designed to place women as the primary receiver of payment, and although payment may be transferred to partners, this doesn't usually happen. The average length of leave taken by men is two to three weeks⁶. This may be linked to men's traditional role in the labour market and females' in the household, but will be also due to health (and breastfeeding) reasons discussed above. Extending the length may make it more attractive to transfer a portion of the payment period to the father.

⁶ Morton et al (2010) *Growing Up in New Zealand: A longitudinal study of New Zealand children and their families*
T2012/1780 : Paid Parental Leave: A Policy Perspective

34. To assume a greater share of caring responsibilities paid parental leave policy could be set up in a way that reserves a period of leave for fathers (as in Norway for example). However, the current set-up allows for efficient allocation of resources between household and labour market activities.
35. The overall labour market equity impact from increased labour market participation is ambiguous. A small wage impact may result from increased supply and a potential negative demand-side response from firms; as employers may face indirect costs to hiring females of child bearing age. These costs are also likely to be more significant as the length of parental leave taken increases. This impact will be more significant in small to medium enterprises, for example the cost of hiring temporary workers or requiring staff to cover workloads. There is some international evidence which suggests hiring and wage discrimination may exist based on female's tendency to take parental leave⁷.

Other Considerations

Fertility:

36. An additional consideration is whether more generous paid parental leave settings incentivise fertility. Extending the length of payment may be one way to both encourage fertility in the short-run, while retaining labour force attachment and employment of women in the long-run.
37. Examining fertility data shows that the introduction of paid parental leave could have had a positive impact on fertility rates, but there is no empirical evidence to support this correlation. There are many external factors that may influence fertility. International empirical evidence suggests that there may be small marginal impacts from extending the length of paid parental leave on fertility. However, paid parental leave will make up a very small proportion of the total lifetime costs of a child, and therefore is likely to only be one of many factors in determining family decisions. We therefore think that paid parental leave should not be overemphasised as a policy tool to incentivise fertility. There would probably need to be substantial increases in level and length to strongly influence fertility decisions.

Economic and Fiscal Cost:

38. As discussed above, employers, particularly small and medium sized firms, face indirect costs of parental leave, which may flow into hiring or wage decisions for child bearing age women. These costs are likely to become more significant as the length of leave, and therefore the likelihood of not returning to the same employer, increases.
39. The most substantial cost of paid parental leave falls on the government; the current scheme costs \$157 million a year. Annex two outlines the Ministry of Business, Innovation and Employment's (MBIE) estimates of an incremental extension of paid parental leave from 14 to 26 weeks. We do not propose that this cost is met by employers however, as this would likely lead to greater discrimination against child-bearing age females in the labour market.

⁷

Pascale (2007). The effects of age and family constraints on gender hiring discrimination: A field experiment in the French financial sector. *Labour Economics*, 14(3) p. 371-391.

Eligibility and Flexibility

40. Although we support the principle of paid parental leave, there are particular parameters within the system which could be considered if we were to improve its effectiveness. If Ministers did want to make changes to paid parental leave, it may be worth considering whether:
- flexibility could be achieved by allowing women to return to work part-time within the parental leave payment period without losing entitlements
 - employees with multiple employers could be eligible
 - adoptive parent eligibility could be extended to include parents who become carers for life for young children only– as suggested in the White Paper for Vulnerable Children
 - non-standard working conditions and contracts could be captured such as casual or seasonal work, or
 - lessons could be learnt from the Canterbury earthquake experiences – i.e. disrupted employment due to natural disaster.
41. These options would need further investigation by MBIE to consider whether any potential benefits are great enough to justify the costs to the Crown and firms.
42. As paid parental leave is part of a package of income support and social policy levers, any changes to paid parental leave settings may not be the most efficient and effective way to achieve a similar set of outcomes. For example tax credits, child care subsidies, free health care and work and income support are all levers that the government currently uses to support parents and children.

Summary

43. We support the principle of paid parental leave; however, there is limited evidence that paid parental leave can be used as a lever to significantly improve outcomes over time.
44. There is evidence that paid parental leave has positive impacts on female labour market participation, health and development, income adequacy and equity. However, the marginal impacts of an extension are likely to be small. There is no evidence of an 'optimum length'. Paid parental leave recipients are predominately middle to higher income earners and it is not a well targeted policy from an outcomes perspective. Only the group who currently access paid parental leave would be advantaged by any changes.
45. The biggest return to investment in child outcomes and development comes from targeted interventions to low socio-economic families, and paid parental leave is likely not the most effective lever to achieve this.

Annex One: Paid and unpaid parental leave summary in New Zealand⁸

1. The Parental Leave and Employment Protection Act 1987 provides for paid leave scaled to the woman's salary for a period of up to 14 weeks. The maximum level of payment is currently \$475.16 per week before tax (recently increased from \$458.82). The entitlement is either the gross weekly rate of pay or \$475.16, whichever is lower.
2. Paid leave is targeted based on labour force attachment. Employees must have at least six months' continuous service with the same employer or be self-employed for at least six months. Part time work is covered if the person works an average of at least 10 hours a week, and at least one hour in every week or 40 hours in every month, in the six months immediately before the baby's expected due date.
3. Employees may transfer all or part of their paid parental leave to their spouse/partner as long as they are also eligible.
4. Employees with at least 12 months continuous service are also entitled to up to 52 weeks of unpaid leave. Paid leave must be taken at the same time as any unpaid leave taken. As leave may only be taken in continuous blocks, return to work will break eligibility.

Annex Two: Ministry of Business, Innovation and Employment Estimated Costs⁹

1. The Ministry of Business, Innovation and Employment (MBIE) has estimated the fiscal costs of increasing the length of paid leave available according to the proposal in the Member's Bill as drafted in July. This is to introduce 18 weeks paid leave from 1 April 2012, 22 weeks from 1 April 2013 and the full 26 weeks would be available from 1 April 2014.
2. These estimates are based on the current cost multiplied by the proposed maximum duration of paid leave. Expenditure for the last full fiscal year, to June 2012, was \$157 million. The number of people receiving PPL payments has levelled off over the last three years to around 2,200 per month. Self-employed applicants make up a small proportion of the scheme and have also levelled off to an average of 160 per month. On average, over a year, approximately 26,000 women apply for PPL, which is 2.5 percent of all employed women in the labour force. Note the costs below are total costs, including current provision. The additional cost is estimated as \$439 million over the forecast period (2012/13 to 2015/16).

Total Expenditure on Paid Parental Leave

\$ million	2011/12	2012/13	2013/14	2014/15	2015/16
Existing Scheme (14 weeks)	\$156.6	\$161.3*	\$166.1*	\$171.1*	\$176.2
PPL 18 weeks (Introduced 12/13)		\$207.4			
PPL 22 weeks (Introduced 13/14)			\$261.1		
PPL 26 weeks (Introduced 14/15)				\$317.8	\$327.3

*Increase in average ordinary time weekly earnings estimated at 3% per year. Figures are before tax and estimates are based on the 2011/12 financial year.

⁸ <http://www.dol.govt.nz/er/holidaysandleave/parentalleave/index.asp>
⁹ Department of Labour (2012), Provided by the Department of Labour